Inflationary Thoughts, and What to Do as Things Unfold

Like many people (perhaps like you, dear reader), I’m a creature of habit.

For example, when I buy something in a store I always ask for a receipt. Or I hit the button for a receipt if it’s one of those self-serve dispensers, like with fuel pumps at a gas station. Then I fold the receipt and drop it into the left pocket of my trousers. See? Habit.

Later, I empty my pockets, take the receipts, and stuff them into an envelope on my desk. The idea is that I’ll sort them later for taxes. Except I hardly ever do that last part. Staying organized for taxes is not a habit, I guess.

At any rate, this short, personal confession is my way of introducing a quick discussion about inflation, currently over 8.5% per no less than the U.S. Government. And it’s likely even more than that number because I believe that government bureaucrats badly misperceive and understate reality.

So, here’s what happened. The other day I was cleaning my desk and found a stash of gasoline receipts from about a year ago. Back then it cost about $35 to $40 to fill the fuel tank of my car.

Lately, though, it costs me about $70 to $75 to fill my gas tank. That’s about 80% more than a year ago.

Same car. Same fuel tank. My driving habits are about the same. Same roads. Same trips to the store, errands, etc. Same everything, except that it costs me much more to fill the tank.

There’s a reason for this, of course. A year ago, the price of oil was nestled in the range of $65 per barrel. Today it's north of $110. Do the math, right? The price of oil controls the price of motor fuel. Oil up, gasoline up; cause and effect.

Meanwhile, rising prices for energy – oil, gasoline, diesel – explain a big whack of why the rate of inflation is high and increasing, not just at the fuel pumps but at the grocery store and pretty much everywhere else.

Inflation is up because the global supply of energy is tight, which is certainly the case for oil, and also the scenario for much else in the arena of fuels.

And energy demand is up due to a global recovery from Covid. More people want more and more energy. And due to the massive levels of government spending over the past couple years, there's money out there to chase it.

In other words, demand/people/money are chasing – or more precisely, "cornering" – a relatively static supply of oil, hence higher prices to clear the market.

All this, while higher costs for energy flow through to everything.

Higher energy costs affect what you pay to drive your car, and what it costs farmers and processors to produce food and other goods, and what it costs manufacturers and shippers to create and move everything, and eventually deliver it to stores where people buy it all.

In this regard, inflation is now truly structural. That is, inflation is built into the entire economic system. It's deeply rooted in the fundamentals of energy availability, and how much energy costs its end-users.

Now, consider a follow-on point to what we just discussed. That is, absent a lot of additional energy miraculously showing up and hitting the system (hint: very unlikely) the whole situation will remain bad, if not get worse.

However bad you think it is now – high prices at the gas pump or supermarket – it’s about to hurt even more. There’s no relief in sight, unless you’re one of those well-insulated people who want to see a major global recession to, as the saying goes, “destroy demand.”

The takeaway here is that inflation is structural. So stand by for more of it. Stand by for higher prices. Stand by for your dollars to buy less and less, while your quality of living declines.

And okay, one more takeaway, with an upbeat angle. Looking ahead, hard assets – real things like metals and energy resources – will not only hold their value through the coming storm, but preserve and create wealth for the holders.

On that last point, invest accordingly.

That’s all for now… Thank you for subscribing and reading.